Impact on employment contracts in foreign currency and the way forward

Introduction

On March 28, 2025, the Use of Foreign Currency Regulations, 2025 ("**UFCR 2025**"), published through the Government Notice No. 198, were introduced in Tanzania. The UFCR 2025 were issued under section 70 of the Bank of Tanzania Act, 2006 ("**BOT Act**") to reinforce the exclusive use of the Tanzania Shilling for domestic transactions. A significant area affected by these regulations is the use of foreign currencies in contracts for, among others, pricing of or payment for goods and services.

This includes employment contracts particularly, those using foreign currencies, like United State (US) Dollar and other foreign currencies, in payment of the employees' remuneration.

This article examines the legal and practical impact of the UFCR 2025 on employment contracts denominated in foreign currency and proposes potential strategies for both employers and employees to navigate the changes and adopt the new regulatory landscape.

Key provisions of the use of foreign currency regulations, 2025

The UFCR 2025 requires quotation, pricing, transactions and payments for goods and services in Tanzania to be made in Tanzania Shilling, unless explicitly exempted by the Bank of Tanzania.

The key provisions include the following:

- **Mandatory use of Tanzania Shilling**: All domestic transactions, including the pricing and payment for goods and services, must be conducted in Tanzania Shilling.
- **Prohibition of Quotation in Foreign Currency**: Businesses and service providers are prohibited from quoting prices in foreign currencies.
- **Prohibition of Payment or Receipt of Payment in Foreign Currency**: Every person is prohibited from making or receiving payment for goods and services in foreign currencies.
- **Prohibition of Contracts in Foreign Currency**: All contracts for provision of goods and services in Tanzania must be in Tanzania Shilling, unless permitted under limited exceptions like for embassies, diplomatic services, or international organizations.

The underlying policy objective is to reduce the "dollarization" of the economy, limit foreign currency instability, and support local monetary controls. This is also in line with the requirement of the law, to wit, section 25 of the BOT Act that recognizes the Tanzania Shilling as the unit of currency.

The use of foreign currency in employment contracts

Prior to the enactment of the UFCR 2025, employment contracts in foreign currency were prevalent. It was a common practice, especially among the multinational corporations and international organizations to denominate employment contract in foreign currencies. This has also been a practice in mining, finance and oil and gas sectors, especially for employees in executive or technical position or expatriates. Foreign currency was adopted to, among others, hedge against local currency depreciation and align with international market rates or standards.

Such foreign-denominated contracts typically encompassed:

- **Salary Payments**: Remuneration stipulated and paid in foreign currency.
- **Benefits and Allowances**: Additional compensation elements, such as housing, travel allowances, or bonuses, calculated in foreign currency.

In many cases, employment contracts either directly denominated salaries in foreign currency or used dual-currency clauses (foreign currency pegged but payable in Tanzania Shillings at prevailing exchange rates).

Impact of UFCR 2025 on employment contracts denominated in foreign currency

The implementation of the UFCR 2025 has significantly impacted, among others, employment contracts which were previously denominated in foreign currencies. Below are some of the notable impacts:

- **Legality and Enforceability**: Existing employment contracts stipulating salaries/remunerations in foreign currencies are now subject to mandatory amendment or potential invalidity. UFCR 2025 provides one year grace period, or such period as may be extended by the Minister of Finance, for all existing contracts to be amended to comply with the law. Otherwise, such contracts shall become invalid and unenforceable. Employers must therefore amend the contracts to reflect remunerations in Tanzania Shilling to align with the UFCR 2025.
- **Employees Rights and Potential Risks**: Employees who previously received salaries and or remunerations in foreign currencies may raise concerns regarding currency depreciation eroding take-home pay, and currency stability, among others. Employers should devise suitable mechanism to address these concerns transparently to maintain morale and mitigate perceived financial risks in order to comply with the law.
- **Employer Compliance Risks**: It is now a crime, pursuant to the amendment to BOT Act by the Finance Act, 2024, to transact using currencies other than the legal tender, which is a Tanzania Shilling. Non-compliance of the UFCR 2025 is an offence, which may expose the employer and its responsible officers to fines and potential legal actions. Employers must therefore ensure that all payroll systems, financial reporting, and contractual agreements are updated to reflect the transactions in Tanzania Shilling.

Potential considerations on the way forward

To navigate through this new regulatory framework, employers, among other stakeholders, should consider the following strategies, among others:

- **Contract Renegotiation**: Change of remuneration currency amounts to change of particulars of employment under the Employment and Labour Relations Act, Cap. 366 R.E 2019. This will therefore require notice and consultation with the affected employee(s). Employers should proactively engage with the affected employees to renegotiate amendments of their contracts to change the remuneration to Tanzania Shilling. Clear communication about the reasons for these changes and any measures taken to address employees' concerns is essential.
- **Employee's Remuneration Stabilization Mechanism**: For ease of transition and in order to mitigate employees' apprehension on Tanzania currency volatility, employers may explore mechanisms to avoid substantial change on employees' earnings. These may include cost-of-living adjustments or perioding inflation-lined increments, or other allowances that may take care of the changes in the currency. But these mechanisms should consider employer's financial position, budget, and financial structure.
- **Employees Awareness**: Employers should take necessary steps to inform employees of the changes and their need as necessitated by operation of the law. This may be achieved by implementing programs to educate employees on the benefits of using local currency and the broader economic objective of the UFCR 2025. This may facilitate smooth transition and foster goodwill.

Conclusion

The UFCR 2025 represents a significant policy shift in Tanzania's economic and regulatory landscape. While the overarching goal of strengthening the Tanzania Shilling is commendable, the implications to employment contracts, among others, must be carefully managed to ensure compliance without undermining workforce stability or international competitiveness.

Use of Foreign Currency Regulations, 2025 is available here.

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